GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: NOV -3 2006

SUBJECT: Fiscal Impact Statement: "Non Profit Leasing Tax Exemption Amendment Act of 2006"

REFERENCE: Bill Number 16-950 as Introduced

Conclusion

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the proposed legislation. The District would lose a portion of the total estimated tax of $90,000 on the property for the period of FY 2006 through FY 2010. In addition, the proposed legislation could expose the District to the potential loss of $19 to $26 million annually in real property tax revenue.

Background

The proposed legislation would amend Chapter 10 of Title 47 (Taxation) of the D.C. Official Code to exempt from real property taxation the portion of real property leased to one or more institutions that are not organized or operated for private gain and that are used for purposes of public charity, located on Lot 829, Square 1027. The portion of real property located on Lot 829, Square 1027 would remain exempt from property tax as long as it is leased to one or more institutions meeting these criteria.

In addition to this specific property tax exemption, the proposed legislation would amend Chapter 10 of Title 47 of the D.C. Official Code to expand the eligibility criteria for property tax exemptions for institutions of public charity. Currently, Chapter 10 of Title 47 provides for a real property tax exemption for "buildings belonging to and operated by institutions which are not organized or operated for private gain, which are used for purposes of public charity

1350 Pennsylvania Avenue, N.W., Suite 209, Washington, D.C. 20004 (202) 727-2476
www.dccfo.com

principally in the District of Columbia." The proposed legislation would expand the criteria for exemption by including in the list of real property exemptions "100% of the area of the buildings leased to institutions ..." organized for public charity principally in D.C. Thus, this legislation would grant an exemption to non-profit lessees located on the property of for-profit institutions.

Financial Plan Impact

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the proposed legislation.

It is not possible at this time to estimate the revenue reduction from the proposed property tax exemption on the portion of property located on Lot 829, Square 1027 because the size of the exempt space and the terms of the lease are not known. However, any exemption on this property will result in a loss of real property tax revenue. The property on which the qualified non-profit currently leases space (Lot 829, Square 1027) owed a real property tax of $9,512 in 2006. The proposed tax year 2007 assessed value for the same property is $971,020. At the commercial rate of $1.85 per $100 of assessed value, the tax year 2007 property tax is estimated to be $17,964. Under the proposed legislation, the District would lose some portion of this tax.

In addition to the revenue loss from the exemption for the eligible property on Lot 829, Square 1027, expanding the definition of properties eligible for a tax exemption would result in the loss of millions of dollars of revenue. Because the proposed legislation would add a large amount of real property to the list of exemptions, the District could face significant exposure to revenue loss. Assuming that 15% to 20% of nonprofit institutions in the District would be eligible for a property tax exemption under this legislation, the District would face a revenue loss of about $19 to $26 million in the first year of implementation.[1]

To administer the exemption applications under this new general exemption provision, the Office of Tax and Revenue (OTR) would incur costs of $331,500 in FY 2007 and $225,000 per year thereafter for the addition of 3 FTE employees and programming changes.

[1] This estimate is based on the following data and assumptions. In tax year 2005, the total taxable value of commercial property in D.C. was $36.9 billion. According to data from the U.S. Census Bureau and the Center for Nonprofit Advancement, nonprofit establishments represent approximately 19% of all D.C. establishments. Assuming that nonprofits account for roughly the same percentage of taxable property value, the nonprofit share of taxable commercial property would be about $7 billion. Based on the commercial tax rate of $1.85 per $100 in taxable value, the nonprofit portion of the property tax would thus be about $130 million. With the conservative assumption that 15-20% of the nonprofit proportion of the commercial taxable value would be eligible for an exemption under this new provision, the District's revenue loss would be approximately $19 to $26 million.